

109th CONGRESS

DEPOSIT INSURANCE REFORM

BACKGROUND

The NCUA and FDIC manage the only two federal share and deposit insurance funds that have the full faith and credit of the United States Government (and ultimately the taxpayer) behind them. The FDIC is seeking many necessary reforms to the operations under their responsibility for banks and thrifts. Lawmakers are also considering increasing the levels of federal deposit and share insurance coverage as part of this legislation. NCUA's position is that parity be maintained between the FDIC and NCUSIF coverage levels.

LEGISLATIVE STATUS

U.S. House of Representatives

On March 9, House Financial Services Committee member Spencer Bachus (R-LA) introduced legislation, [HR 1185](#) the Federal Deposit Insurance Reform Act of 2005. The bill was co-sponsored by 40 fellow Representatives.

HR 1185 would:

- Merge the BIF (Bank Insurance Fund) and SAIF (Savings Association Insurance Fund) funds into one fund within the FDIC called the Deposit Insurance Fund (DIF) within 90 days of the legislation's enactment
- Authorize DIF to borrow from the Federal Home Loan Bank system
- Increase the deposit insurance coverage limit for depositors to \$130,000 from \$100,000
- Increase to \$260,000 the amount of insurance for certain retirement accounts – including IRAs, Keoghs, 401(k) plans, and other such retirement plans recognized by the Internal Revenue Code
- Index (rounded to the nearest \$10,000) the amount of insurance for inflation every 5 years beginning in 2007
- Eliminate the minimum 1.25% statutory rate (the cliff rate) in favor of a range (1.15% - 1.4%).
- Require the FDIC to study its operations and further possible changes to the deposit insurance system within one year of the legislation's enactment
- Requires a joint study be conducted by the FDIC and the NCUA to study the feasibility of increasing the limit on deposit insurance for deposits of municipalities and units of local government; the feasibility of establishing a voluntary deposit insurance system for deposits in excess of the standard

maximum amount; and the feasibility of privatizing all deposit insurance at insured depository institutions and insured credit unions.

On April 27, the House Financial Services Committee approved the legislation by voice vote. The Committee accepted one amendment to the legislation; an amendment that would allow the FDIC and the NCUA to use the Personal Consumption Expenditure Chain-Type Index in determining inflationary indexing increases for the fund. Congress is given six months to reject the indexation of the insurance coverage.

The full House approved (413-10) the legislation as amended HR 1185 on May 4.

U.S. Senate

S-1562 was introduced on July 29, 2005 by Senators Mike Enzi (R-WY), Tim Johnson (D-SD), Wayne Allard (R-CO) and Chuck Hagel (R-NE).

This Senate legislation differs from the House bill significantly with regard to increasing the deposit and share insurance coverage above the current \$100,000, and parity with regard to the FDIC and NCUSIF is maintained.

- Only inflation adjustments are provided to the current \$100,000 coverage level, beginning in January 2010. Inflation adjustments would only occur every five years thereafter.
- Retirement accounts would see coverage levels increase to \$250,000, and banks and thrifts that are not “well” or “adequately” capitalized cannot accept employee benefit plan deposits.
- The Board of Directors of the Federal Deposit Insurance Corporation and the National Credit Union Administration Board shall each conduct a study of--
 - (A) the feasibility of increasing the limit on deposit insurance for deposits of municipalities and other units of general local government, and the potential benefits and the potential adverse consequences that may result from any such increase; and
 - (B) the feasibility of establishing a voluntary deposit insurance system for deposits in excess of the maximum amount of deposit insurance for any depositor, and the potential benefits and the potential adverse consequences that may result from the establishment of any such system.

Updated: August 10, 2005